time. It is not necessary, therefore, to determine whether AGIS is a provider of in-region interLATA services. This plan will ensure Qwest's compliance with Section 271 in connection with AGIS.

C. KPNQwest, N.V.

Qwest holds an equity interest of approximately 44 percent in KPNQwest. KPNQwest is a European joint venture of Qwest and KPN, a telecommunications company based in the Netherlands. The company owns a pan-European broadband fiber network, and provides Internet protocol services such as Internet access service, backbone and transit services for other Internet service providers and telecommunications carriers (including transmission in the DWDM and ATM formats), web hosting (including streaming multimedia content), and dark fiber. Qwest will work closely with KPNQwest to ensure that it will not be providing any in-region interLATA telecommunications or information services at the time of closing of the merger. No difficulty is expected in this regard because KPNQwest is based in Europe, and its business focus is on service to that market.

D. Slingshot Networks, L.L.C.

Qwest has a 50 percent interest in Slingshot. Slingshot offers production, post-production, and video storage services that enable customers to view, manipulate, and edit digitized video content. Slingshot provides office space, production and post-production capabilities in Nashville, Tennessee, and Los Angeles, California. Slingshot also uses satellite and fiber transmission facilities to deliver its products and enable customers to view remotely the video content.

Slingshot has informed Qwest that it does not currently provide, and does not have immediate plans to offer, in-region interLATA telecommunications or information services. Qwest has informed Slingshot of the types of services that would be prohibited under Section 271, and will work with Slingshot to ensure that Slingshot remains in compliance with Section 271. Specifically, we would anticipate that to the extent Slingshot were to offer its video production and other services within the U S WEST region (or in any other way that would implicate a prohibited interLATA service), Slingshot would not provide the interLATA transmission component of any such services.

E. Hawk Holdings, L.L.C.

Qwest's investment in Hawk Holdings, L.L.C. amounts to approximately thirty percent of the equity in that company, an "Internet incubator" which invests in early-stage Internet companies, providing them with intellectual and financial capital. As described in a recent press release, Hawk "acquires equity positions in Internet businesses and provides these companies with operating expertise, investment capital, as well as access to Qwest's broadband infrastructure and hosting facilities." 136/ Hawk is not itself a provider of telecommunications

136/ "Hawk Holdings Announces Appointment of Senior Management Team," April 4, 2000.

services. It does not currently provide, and has no plans to provide, in-region interLATA services.

Qwest will work with Hawk to ensure that its investments do not create a Section 271-relevant affiliation between Qwest and any company that could be engaged in the provision of in-region interLATA services. Because Qwest's interest in Hawk is approximately 30 percent, a partial ownership interest by Hawk in another company is unlikely to create an attributable equity interest for Qwest of greater than ten percent, such that Hawk's investment would make that other company a BOC affiliate. 137/ Qwest will nevertheless work closely with Hawk to ensure that this does not occur. This approach will ensure that Hawk is in compliance with Section 271 in all of its activities.

F. Qwest Cyber.Solutions, L.L.C.

Qwest owns 51 percent of Qwest Cyber.Solutions, an applications service provider. Qwest controls Qwest Cyber.Solutions, which Qwest treats as a consolidated subsidiary (meaning that Qwest Cyber.Solutions is treated as wholly-owned for financial reporting purposes). To the extent that Qwest Cyber.Solutions provides applications services using in-region facilities (such as the Cyber centers in

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137/ To determine whether Hawk's investment in another company is sufficient to cause that company to be considered a "BOC affiliate," Qwest's equity interest in Hawk would be multiplied by Hawk's equity interest in a third company. If that product is greater than ten percent, the third company would be considered a BOC affiliate.

Denver and Seattle), it will not offer in-region interLATA transmission in connection with those services after closing. Because Qwest controls Qwest Cyber.Solutions, Qwest will be able to ensure that Qwest Cyber.Solutions will not provide in-region interLATA services until such time as post-merger Qwest-U S WEST has achieved Section 271 approval.

VIII. TRANSACTIONS AMONG QWEST-U S WEST AFFILIATES POST-MERGER

In the *Qwest-U S WEST Merger Order*, the Commission recognized that the affiliate transaction and other rules would apply to the merged company, and that the Commission's usual enforcement tools would be available to police the merged company's compliance with those rules. 138/ The Commission found that such enforcement processes were sufficient to address any issues that might arise in this area after closing of the merger. That said, in a footnote addressing comments filed by Allegiance, the Commission also directed Qwest to provide information in this report about "the relationship and anticipated transactions between" the subsidiaries of the post-merger company.

After the merger, the combined company will have a similar scope of operations compared to the two companies in their separate forms. These will include U S WEST's existing in-region local exchange operations and Qwest's existing long distance, nationwide backbone network and data services. Certain

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138/ *Qwest-U S WEST Merger Order* at ¶29.

FCC rules will be applicable to transactions between the various affiliates of the merged company, just as they are to U S WEST today. 139/ In addition, when the post-merger Qwest engages in activities covered by the statutory separate affiliate requirements of Section 272, Qwest will need to comply with Section 272 and the FCC's implementing rules, just as U S WEST must do when it achieves Section 271 long distance relief. 140/ Similarly, the merged company will be subject to the Commission's rules for its CMRS wireless subsidiary. 141/ The merger does not create new requirements for U S WEST; it simply expands the scope of the activities that are subject to the Commission's rules.

Final decisions have not yet been made about the corporate structure that will be implemented post-merger. Qwest anticipates, however, that its current out-of-region long distance, backbone network and data services will be provided through an affiliate separate from the incumbent local exchange carrier operations of U S WEST.

139/ *See* 47 U.S.C. § 32.27 (affiliate transaction rules).

140/ 47 U.S.C. § 272; 47 C.F.R. §§ 53.1-213. Prior to obtaining interLATA authority, these activities are limited to manufacturing activities as defined in 47 U.S.C. § 273(h). U S WEST is not currently engaged in such activities.

141/ *Amendment of the Commission's Rules to Establish Competitive Service Safeguards for Local Exchange Carrier Provision of Commercial Mobile Radio Services; Implementation of Section 601(d) of the Telecommunications Act of 1996*, WT Docket No. 96-162, Report and Order, 12 FCC Rcd 15668 (1997); *appeal pending sub nom. GTE of the Midwest, Incorporated v. FCC*, No. 98-3167 (6th Cir. filed Dec. 12, 1997). *See also* 47 C.F.R. § 20.20

Qwest and U S WEST as components of the merged company, of course will comply fully with all applicable FCC rules governing affiliate transactions. Because U S WEST has been subject to these rules for years, it has a great deal of familiarity with the rules and knowledgeable personnel who know how to comply with them. Today for U S WEST's regulated ILEC subsidiary, such affiliate transactions include, without limitation: legal, finance, investor relations, treasury, public policy, tax, real estate, procurement, human resources, and public relations functions; billing and collections; information technology; and research and development. Transactions among affiliates in the post-merger company will be governed by the same rules that apply to the pre-merger U S WEST, and compliance will be achieved for all the affected Qwest activities and affiliates in the new corporate structure just as it has been for U S WEST's current affiliates. As is the case today with U S WEST and other carriers who must comply with the rules, the Commission's enforcement and auditing procedures remain available to ensure compliance.

The affiliate transactions rules themselves recognize that in a large company with many subsidiaries, a number of services will be provided across the family of companies for reasons of efficiency, consistency, and cost-savings, and that there will be transactions between regulated and unregulated affiliates. Part 32 accounting and affiliate transaction rules have anticipated and dealt with these transaction pricing issues. Qwest understands that it will need to pay close attention to these rules and, like U S WEST, ensure full compliance with them in a post-merger environment.

Post-merger, U S WEST Communications, Inc. (the ILEC and BOC), also will continue to provide telecommunications facilities and services to its affiliates on a non-discriminatory basis vis-a-vis non-affiliates, consistent with its obligations under Sections 201, 202, and 251(c). 142/ Section 272 and rules adopted thereunder will apply to transactions between U S WEST Communications, Inc. and the entity ("272 Affiliate") that in the future will provide in-region interLATA telecommunications, once interLATA authority has been obtained. Currently, U S WEST Long Distance, Inc. is designated as the Section 272 Affiliate, and its transactions with U S WEST Communications, Inc. comply with Section 272 and the rules adopted thereunder, including Internet posting of transactions. 143/ It is anticipated that this Section 272 Affiliate will be expanded or combined with any Section 272 Affiliate created or designated by Qwest to perform its in-region interLATA activities once Section 271 authority is obtained, although decisions in this regard will likely not be made until several months after the merger closes. Qwest-U S WEST will of course provide complete information regarding its

142/ 47 U.S.C. §§ 201, 202, 251(c).

143/ *See* http://www.uswest.com/about/policy/docs/long_distance.html (U S WEST web site disclosing transactions between U S WEST Communications, Inc. and U S WEST Long Distance, Inc.).

corporate structure and compliance with Section 272 and related rules when it files an application for Section 271 interLATA authority.

There are no statutory provisions or FCC rules that dictate how post-merger Qwest-U S WEST must be structured, other than the requirement that certain activities be placed in separate affiliates (*e.g.*, in-region interLATA activities, pursuant to Section 272 of the Act, and commercial mobile radio services, pursuant to 47 C.F.R. § 20.20). U S WEST is already in compliance with these structural requirements, and the post-merger corporate structure will maintain these structural divisions. Because Qwest is divesting its in-region interLATA business, there will be no need to set up a separate Section 272 Affiliate for Qwest's activities (until such time as the post-merger company obtains interLATA authority). Thus, whatever corporate affiliate structure Qwest chooses to adopt post-merger will remain consistent with Commission requirements. Many decisions have yet to be made, large and small, regarding the corporate and affiliate structure and the location of various activities post-merger.

Although final decisions have not been made, we can state that current plans contemplate that Qwest's out-of-region long distance and nationwide network and data operations and services will remain in an affiliate separate from U S WEST Communications, Inc., the incumbent local telephone company (ILEC/BOC). Qwest also does not anticipate that Qwest network assets or facilities will be transferred from Qwest to U S WEST Communications, Inc. post-merger, although again, no final decisions have been made in this regard. 144/ We also do not have any plans to transfer any network elements that would be subject to Section 251(c)(3) unbundling obligations from U S WEST Communications, Inc. to any other corporate affiliate. If any such transfer were to occur in the future, Qwest recognizes that the transferred network elements would continue to be subject to Section 251(c)(3) obligations unless otherwise authorized by the Commission. 145/

In sum, Qwest intends to comply fully with all applicable statutory and regulatory requirements governing corporate structure and affiliate transactions. In doing so, it will take advantage of U S WEST's extensive experience with complying with these requirements. The Commission's enforcement procedures are more than adequate to ensure that post-merger Qwest remains in compliance with these requirements.

IX. CONCLUSION

The Commission already has concluded that Qwest's merger with U S WEST is in the public interest provided Qwest fully divests its in-region interLATA activities as required by Section 271. As demonstrated in this report, this process is

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144/ Of course, if any such transfers were to be made, they would be accounted for in compliance with the FCC's affiliate transaction rules, which protect regulated ratepayers.

145/ *Non-Accounting Safeguards Order*, 11 FCC Rcd at 22055, ¶ 309; 47 C.F.R. § 53.207.

well underway. Qwest has reached agreement with Touch America, a highly-qualified purchaser of its in-region business. Qwest and Touch America have structured their transaction in a manner that is fully consistent with the Telecommunications Act, and with the best interests of customers in a smooth transition. Work is actively in progress to complete the divestiture in the very near future. While Qwest regrets having to sell this business, the company looks forward to completing its merger with U S WEST, bringing the public more competition and faster deployment of advanced services – and re-entering the interLATA market upon satisfaction of Section 271 requirements at the earliest possible date.

AFFIDAVIT

I, Dominic A. Gomez, do hereby declare under penalty of perjury that the following is true and accurate to the best of my knowledge, information and belief:

1. I am Senior Vice President of Qwest Communications International Inc. ("Qwest"), a position I have held since August 1999.

2. In my capacity as Senior Vice President, my responsibilities include planning for and implementation of the merger between Qwest and U S WEST, Inc. My merger-related responsibilities include ensuring that the company's business and activities are in compliance with Section 271 of the Communications Act of 1934, as amended, 47 U.S.C. § 271, and the rules and policies of the Federal Communications Commission ("FCC") adopted pursuant thereto, at the time of closing of the merger of Qwest and U S WEST, Inc.

3. I have reviewed the foregoing "Qwest Communications International Inc. Report on the Divestiture of its InterLATA Business in the U S WEST Region and its Compliance with Section 271" ("Divestiture Report"), and do hereby certify that all facts and statements pertaining to Qwest and its direct and indirect subsidiaries and affiliates contained in the Divestiture Report are true and accurate to the best of my knowledge, information and belief.

Dominic A. Gomez
Qwest Communications International Inc.
555 Seventeenth Street
Denver, CO 80202

Date: April 13, 2000

State of Colorado

County of Denver

Subscribed and sworn before me on this 13th day of April 2000.

My commission expires 2/7/02

AFFIDAVIT

I, Perry J. Cole, do hereby declare under penalty of perjury that the following is true and accurate to the best of my knowledge, information and belief:

1. I am Vice President, Business Development of Touch America, Inc. ("Touch America"), a position I have held since 1998. I am also Vice President, Corporate Business Development of The Montana Power Company ("Montana Power"), a position I have held since 1999.

2. I have reviewed the foregoing "Qwest Communications International Inc. Report on the Divestiture of its InterLATA Business in the U S WEST Region and its Compliance with Section 271" ("Divestiture Report"), and do hereby certify that all facts and statements pertaining to Touch America and its parent company, the Montana Power Company and to Touch America's direct and indirect subsidiaries, contained in the Divestiture Report in Section II.A. are true and accurate to the best of my knowledge, information and belief.

By: Perry J. Cole

Perry J. Cole
Touch America, Inc.
40 E. Broadway
Butte, MT 59701

Date: April 13, 2000

State of Montana

County of Silver Bow

Subscribed and sworn before me on this 13th day of April 2000 by Perry J. Cole

My commission expires June 1, 2000

Susan Breining
Notary Public
Residing at Butte, Montana

CERTIFICATE OF SERVICE

I, Barbara E. Clocker, hereby certify that on this 14th day of April, 2000, copies of the foregoing "Divestiture Compliance Report of Qwest Communications International Inc." were served by hand delivery (where indicated) or by first class mail to the following. Only Commission staff will be served with the confidential version.

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